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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, OCTOBER 20, 1998

APPLICATION OF

VIRGINIA ELECTRIC AND
POWER COMPANY

CASE NO. PUE980462

For Approval of Expenditures
for New Generation Facilities
pursuant to Va. Code § 56-234.3
and for a certificate of public
convenience and necessity pursuant
to Va. Code § 56-265.2

ORDER

On August 11, 1998, Virginia Electric and Power Company ("Virginia Power" or "Company") filed the instant application (the "Application"), requesting regulatory approval for the construction of 5 new gas-fired turbine generator units of approximately 150 megawatts ("MW") capacity each. A related application seeks regulatory approval for construction of transmission facilities necessary to connect these generators to the electric transmission grid. It is proposed that 4 units would begin operation on or about July 1, 2000, and the fifth unit would begin operation one year later.

On September 2, 1998, the Commission Staff ("Staff") filed a Motion Requesting Ruling on Issuance of Request for Proposal, seeking a ruling as to whether the Rules Governing the Use of

Bidding Programs to Purchase Electricity from Other Power Suppliers, now codified at 20 VAC 5-301-10 ("Rules"), were applicable to Virginia Power's filings. Pursuant to prior Order, the Company filed its response to the motion and replies to this response were filed by the Staff and by several interested parties.

Virginia Power responded that it no longer had an active bidding program, and so was not subject to the Rules, but if the Commission found otherwise, should be given an exemption from the Rules.

Among the responses received by the Commission was one filed on behalf of the Virginia Committee for Fair Utility Rates ("Committee"). The Committee opined that the Commission should "defer ruling on either the motion or Virginia Power's request for an exemption until after the hearing, and until the evidentiary record has been fully developed on the issues of whether there is a need for additional capacity and on the best means for meeting any need that might be developed." Reply at 2. The Committee feels that Virginia Power may have no capacity need, because portions of Virginia Power's retail load may eventually be served by other suppliers. Some of these other potential suppliers also filed responses as interested

parties and urged that they be given an opportunity to bid to supply the capacity identified in the application.¹

NOW THE COMMISSION, having considered the pleadings and the Application, is of the opinion and finds that it should, on an expedited basis, schedule a public hearing to consider the issues now before it, including the need for capacity and how any need can be best met, whether the Bidding Rules are applicable and if so whether Virginia Power should be granted an exemption from them, and whether Virginia Power's asserted "quick timetable" can accommodate meaningful participation from other parties. To these ends, Virginia Power shall develop and file with this Commission within 10 days of the date of this Order documents and materials necessary to enable interested parties to determine whether, if there is a need for additional capacity, they can meet such need through construction or purchase of generating capacity, demand side measures, or otherwise. Such material should include the following minimum information:

1. A detailed description of forecasted resource needs that addresses the timing of such needs (including incremental capacity needs by month and expected monthly capacity factors of the proposed combustion turbines), minimum run-times, dispatch requirements, etc.

¹ See, Reply of Calpine Corporation, Dynegy Power Corp., and PP&L Global; Comments of the Electric Power Supply Association; and Comments in Support of Staff Motion, filed by the Energy Marketing Coalition.

2. A description(s) of geographical preferences for the location of generating resources, identifying transmission limitations, discussing transmission congestion relief, detailed substation inter-connection information, etc. To the extent that generating capacity is necessitated by transmission or other physical limitations, such as the need for specific ancillary services (such as voltage support, spinning or operating reserves, or reactive supply), the discussion of geographical preferences should include information pertaining to the consideration of demand side programs including the possibility of meeting identified needs through retail access programs.
3. A comprehensive list of mandatory and preferred contractual specifications including the term or terms of acceptable contracts, penalty provisions, performance clauses, etc.
4. A description of an appropriate evaluation process (including both price and non-price considerations) for possible resource proposals. Such a process should provide for an equitable evaluation of Virginia Power's proposed combustion turbines versus non-Virginia Power proposals and should highlight any and all areas where different evaluation criteria would be applied to Virginia Power's proposed units versus outside proposals. This discussion should also address how the potential for electric utility restructuring may influence the evaluation of non-Virginia Power alternatives.

In addition, Virginia Power shall also develop and file within ten (10) days of the date of this Order, on a confidential basis with the Commission's Division of Energy Regulation, sufficient information to enable the Staff to assess the "benchmark costs" for the proposed units, including, at a minimum: overnight construction costs; levelized annual costs or economic carrying costs; and, projections of annual costs (capital costs, operations and maintenance expenses, average fuel costs, etc.) for each year over the life of the proposed units.

The Commission is further of the opinion that any party interested in offering to supply any such identified capacity need should state its intention to bid to supply such capacity and to file evidence of its capability of fulfilling such need through construction or purchase of generating capacity, demand side measures or by other means.

Accordingly, IT IS ORDERED THAT:

(1) Virginia Power shall, within 10 days of the date of this Order, file with the Commission for public inspection, and promptly make available upon request, the documents and materials referenced above;

(2) Any person interested in submitting a bid to meet the capacity need identified in the Application shall, on or before November 25, 1998, file with the Clerk of the Commission and simultaneously serve upon counsel for Virginia Power a statement of its intent to submit such bid, together with all evidence the Commission should consider as to the party's ability to fulfill bid requirements;

(3) A public hearing shall be scheduled for January 5, 1999, at 10:00 a.m., in the Commission's Second Floor Courtroom of the Tyler Building, 1300 East Main Street, Richmond, Virginia, for the purpose of determining whether there is a need for addition of generating capacity as proposed in the Application or otherwise, and, if so, whether there are persons

other than Virginia Power that are interested in submitting a bid and capable of meeting any such need that is identified.

(4) The Commission Staff shall investigate these matters and file a report of its findings on or before December 17, 1998.

(5) The Company shall file any additional testimony and exhibits it wishes the Commission to consider on or before October 30, 1998.

(6) Any Protestant shall file testimony and exhibits it wishes the Commission to consider, together with a Notice of Protest and Protest, on or before November 25, 1998.

(7) Any party may file rebuttal to any prefiled testimony or to the Staff Report on or before December 23, 1998.

(8) All filings ordered herein shall be filed in the original and fifteen (15) copies with the Clerk of the Commission, State Corporation Commission, P.O. Box 2118, Richmond, Virginia, 23218, and shall refer to Case No. PUE980462. All filings ordered herein shall also be contemporaneously served on counsel for all other parties.

(9) Discovery shall be governed by Rule 6:4 of the Commission's Rules of Practice and Procedure, except that responses to interrogatories shall be served within 10 days of receipt of the interrogatory.

(10) On or before November 1, 1998, Virginia Power shall cause to be published, in display advertising in newspapers of general circulation throughout the state, the following notice:

NOTICE OF APPLICATION OF
VIRGINIA ELECTRIC AND POWER CO.
FOR APPROVAL OF EXPENDITURES
FOR NEW GENERATING FACILITIES

On August 11, 1998, Virginia Electric and Power Company ("Virginia Power" or "Company") filed an application with the State Corporation Commission that requests approval of expenditures necessary to construct additional generating facilities in either Fauquier or Caroline County, Virginia.

The Commission has found that it should determine whether there is a need for the addition of generation capacity in the Commonwealth and the extent to which its Capacity Bidding Rules apply. The Commission has scheduled a public hearing, in its 2nd Floor Courtroom, Tyler Building, 1300 East Main Street, Richmond, Virginia, at 10:00 a.m. on January 5, 1999, for these purposes. The Commission will also consider whether, should such need be established, parties other than Virginia Power should be afforded an opportunity to bid to supply the need.

Persons interested in participating in the proceeding as a Protester, as defined in the Commission's Rules for Practice and Procedure are directed to the Commission's Order of October 20, 1998, for specific procedural instruction. This Order may be requested from Virginia Power by writing its counsel, Pamela Johnson, Virginia Electric and Power Company, P.O. Box 26666, Richmond, Virginia, or by phoning (804) 771-3621. The Order may also be obtained from the

Commission's Division of Energy Regulation,
P.O. Box 1197, Richmond, Virginia 23218.

The Commission welcomes written comments from interested persons. Such comments should be submitted to the Clerk of the Commission, P.O. Box 2118, Richmond, Virginia 23218, and refer to Case No. PUE980462. Anyone interested in making a statement at the hearing may do so by appearing at the Commission Courtroom at 9:45 a.m. on the day of the hearing and registering an intent to speak with the Commission's Bailiff on forms the Bailiff will provide. Persons who require accommodation to physically participate in the proceeding should call 1-800-552-7945 (voice) or 1-804-371-9206 (TDD) to make necessary arrangements.

VIRGINIA ELECTRIC AND POWER COMPANY

(11) This matter is continued for further orders of the Commission.